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Services Division
European Satellite Committee

Meeting of 30 July 1958

Present: [redacted] S/CST; [redacted] S/COM; [redacted] S/TF; [redacted] S/TR; [redacted] A/E; [redacted], A/PC; [redacted], M/FM; [redacted] M/MF; [redacted] St/I/R; Segall, State; [redacted]

Mrs. [redacted] Chief, S/TF, discussed Soviet Bloc exchange rates, which is the major interest of her branch. Their chief problem is to determine the dollar equivalent of ruble sums.

An exchange rate is simply one currency stated in terms of another. In the West it is usually determined by government action. Western exchange rates are fairly realistic, and they do reveal the different purchasing powers of money. The price of sterling is determined at three dollars per pound, thus, the dollar times three will purchase what the pound sterling will. As prices vary, the realistic exchange rate will vary.

The Bloc exchange rates are administered prices also, but the distinguishing feature is that the Bloc countries have a dual price system. They have one exchange rate for commercial transactions, which are the purchase and sale of commodities or commodity transport, and another for noncommercial transactions, such as tourist trade, embassy receipts, etc. The Bloc purposely maintains this dual price system in order to insulate the Communist economies from outside influences.

Bloc currencies are internal currencies--they have no international uses. When the Bloc undertakes transactions, they do it in another currency. Transactions with the West are in western currency--sterling, Swiss francs, etc.--and financial accounts are kept in Western currency. Trade within the Bloc is carried on in terms of rubles, which is a foreign exchange ruble. The latter differs from the domestic Soviet ruble, as it is only an accounting unit and there is no currency to represent it. The value of the foreign exchange ruble is about twice as high as the domestic ruble. D/A estimates that the domestic ruble is worth about eight or ten rubles to the dollar, while the foreign exchange ruble is at the rate of four rubles to the dollar.

Under this dual price system, a Bloc country will buy within the country at domestic prices and sell outside the country at foreign exchange prices. When they import goods, the reverse is true, so that they lose on exports and gain on imports. Their problem is to get the profit on imports to cover the losses on exports, but this does not always happen. In 1952 East Germany had a loss on both imports and exports, and in the mid 1950's Rumania had a profit on both exports and imports.

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Bloc exchange rates are significant only for internal accounting purposes and are used only by the Satellites. The USSR does not bother to convert foreign exchange rubles into domestic rubles. These official commercial exchange rates are on the whole reasonable exchange rates because prices in intra-Bloc trade in rubles are approximately four times Western prices in dollars. Thus, the rate of four rubles to one dollar is a meaningful rate. Cross exchange rates for commercial purposes are consistent.

For noncommercial transactions there was no dual exchange rate until 1957. Depreciation of Bloc currencies for noncommercial transactions apparently was an attempt to reflect more accurately relative internal price levels.

> On 6 August the Committee meeting will be devoted to a recapitulation of developments in the economies of the European Satellites during the first six months of 1958. We hope to have representatives from as many branches as possible to participate in this discussion. The meeting will be held at 1330 in Room 1121 M Building.

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Secretary